

Message Text

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15/11

ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04

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H-01 AGR-05 /086 W

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R 130820Z DEC 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 3689

INFO AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONGEN HONG KONG

USLO PEKING

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C O R R E C T E D C O P Y (PARA. 2. 2) - OMITTED IN ORIGINAL)

E.O. 11652: N/A

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SUBJECT: MEASURES TO INCREASE COMPETITIVENESS OF EXPORT SECTOR

REF: TAIPEI 7287

HONG KONG FOR E. GORDON, TREASURY REP.

1. SUMMARY: TEN MEASURES WERE ANNOUNCED BY GROC
DECEMBER 9 IN LIEU OF DEVALUATION. TWO OF THEM WILL
HELP PROVIDE WORKING CAPITAL FOR HARD PRESSED EXPORQLT
FIRMS AND THE OTHER EIGHT WILL REDUCE COSTS OF PRODUCTION.
ADDITIONAL MEASURES ARE ALSO BEING TAKEN, INCLUDING 15 PERCENT
REDUCTION IN PRICE OF NATURAL GAS USED BY EXPORT INDUSTRIES
AND REDUCTION OF INTEREST RATES ON DEPOSITS AND LOANS BY
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1/2 PERCENTAGE POINT. TENSWOINT PROGRAM ESTIMATED TO REDUCE

PRODUCTION COSTS OF EXPORT INDUSTRIES ON AVERAGE BY 5 PERCENT, WHILE GOVERNMENT MAY LOSE ABOUT NT\$2,700 MILLION (US\$71,052,632) A YEAR IN REVENUE. IT IS HOPED THAT DECEMBER 9 PROGRAM TOGETHER WITH NOVEMBER 14 PROGRAM WILL HELP EXPORT SECTOR SQUEEZE THROUGH TIGHT PERIOD BUT IF RELIEF NOT IN SIGHT BY EARLY SPRING, GROC WILL FACE SERIOUS SITUATION REQUIRING HARD DECISION OF WHETHER TO CONTINUE PRESENT POLICIES OR TO DEVALUE. END SUMMARY.

2. FOLLOWING ARE TEN MEASURES ANNOUNCED BY GOVERNMENT IN LIEU OF DEVALUATION, TOGETHER WITH EXPLANATION AND COMMENTS:

1) EXPORT REVOLVING FUNDS AND LOANS WILL BE PROVIDED BY GOVERNMENT TO DISTRESSED FIRMS AT LOW RATE OF INTEREST. DETAILS OF THIS PROGRAM STILL BEING WORKED OUT. COMMERCIAL BANKS WILL MAKE LOANS OF UP TO 80 PERCENT OF EXPORT VOLUME SO FAR THIS YEAR, AGAINST COLLATERAL, AT ABOUT 9 PERCENT INTEREST WITH ONE YEAR MATURITY. CENTRAL BANK WILL REFINANCE THESE LOANS, IF REQUESTED, UP TO AS YET UNDETERMINED PERCENTAGE.

2) GOVERNMENT AGENCIES WILL PURCHASE INVENTORIES OF EXPORT ORIENTED INDUSTRIES SUCH AS TEXTILES AND IRON AND STEEL WHICH FACE SPECIAL DIFFICULTIES. CENTRAL BANK WILL MAKE SPECIAL LOANS TO CENTRAL TRUST AND TAIWAN SUPPLY BUREAU (UNDER PROVINCIAL GOVERNMENT) WHICH WILL PURCHASE INVENTORIES FROM FIRMS IN ABOVE TWO FIELDS IF QUALIFIED AS IN DISTRESS BY AS YET UNDETERMINED CRITERIA. IT MIGHT APPLY TO FIRMS WHICH EXPORT 30 PERCENT OR MORE OF TOTAL PRODUCTION AND HAVE EXPORTS DURING FIRST 11 MONTHS 20 PERCENT OR MORE BELOW SAME PERIOD LAST YEAR. ANY LOSSES SUFFERED BY THESE TWO GOVERNMENT AGENCIES IN DISPOSING OF STOCKS LATER WILL BE COVERED BY GOVERNMENT APPROPRIATION. CONTRARY TO NEWS REPORTS, PLYWOOD FIRMS WILL NOT RECEIVE THIS SPECIAL TYPE OF ASSISTANCE. ESTIMATED COST AROUND NT\$5 BILLION (US\$131 MILLION).

3) SPREAD BETWEEN BUYING AND SELLING RATE OF US DOLLARS REDUCED FROM NT\$.20 TO NT\$.10. BUYING RATE NOW NT\$37.95 INSTEAD OF 37.90 AND SELLING RATE NT\$38.05 LIMITED OFFICIAL USE

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INSTEAD OF 38.10. REDUCED REVENUE FROM EXCHANGE BUSINESS WILL BE SHARED BY CENTRAL BANK AND COMMERCIAL BANKS ON 50/50 BASIS. ONE US BANK BRANCH ESTIMATES IT WILL LOSE ABOUT US\$30,000 IN 12 MONTH PERIOD AS RESULT OF THIS MEASURE.

4) PRESENT 10 DAY INTERDVT RATE ON EXPORT BILLS OF EXCHANGE PURCHASED BY BANKS FROM EXPORTERS WILL BE WAIVED. CENTRAL BANK WILL SUFFER THIS LOSS, NOT

COMMERICAL BANKS, SINCE IT WILL TURN OVER NT DOLLARS IMMEDIATELY TO COMMERICAL BANK EVEN BEFORE FOREIGN PROCEEDS COLLECTED FROM ABROAD. IN THIS WAY COMMERCIAL BANK CAN PAY OFF EXPORTER IMMEDIATELY WITHOUT CHARGING INTEREST WHICH WAS DESIGNED ORIGINALLY TO PAY FOR PERIOD OF TIME BETWEEN RECEIPT BY EXPORTER OF PROCEEDS IN NT DOLLARS FROM BANK AND TIME WHICH BAK COLLECTED AMOUNT OVERSEAS.

5) REBATE OF IMPORT DUTIES ON "SUPPLEMENTARY" MATERIALS NEEDED FOR PROCESSING INTO EXPORTABLE GOODS REINSTITUTED. REBATE HAD BEEN SUSPENDED IN 1973 BECAUSE OF DIFFICULTY IN ADMINISTERING IT.

6) REBATE ON IMPORT DUTIES ON IMPORTED RAW MATERIALS USED IN MANUFACTURE OF EXPORTED PRODUCTS WILL BE EXTENDED TO COVER LOSS OR WASTAGE OF MATERIALS IN PROCESS OF PRODUCTION. THIS ALLOWANCE HAD ALSO BEEN SUSPENDED IN 1973 FOR EXPEDIENCY AND IS NOW REINSTITUTED.

7) HARBOR DUES OF 4 PERCENT AD VOLOREM ON IMPORTED RAW MATERIALS USED TO PRODUCE EXPORTED PRODUCTS WILL NOW BE WAIVED.

8) AERONAUTICAL SECURITY AND CONSTRUCTION FEE OF 9 PERCENT ON IMPORTED AND 6 PERCENT ON EXPORTED AIR FREIGHT SUSPENDED EFFECTIVE DECEMBER 11 AT 12:00 NOON. WHILE THIS MEASURE NOT AS HELPFUL NOW AS IT WOULD HAVE BEEN EARLIER, WITH REDUCED VOLUME OF AIRFREIGHT BY ELECTRONICS COMPANIES BECAUSE OF ECONOMIC SLOWDOWN, IT IS NEVERTHEKLESS A COST SAVING FACTOR FOR LARGE EXPORTERS.

9) IMPORT LICENSE FEE REDUCED FROM 0.2 PERCENT OF IMPORT VALUE TO 0.1 PERCENT.

10) INDIVIDUAL SOLUTIONS TO SPECIAL PROBLEMS FACED BY EXPORT INDUSTRIES WILL BE SOUGHT.

3. ADDITIONAL MEASURES ALSO TAKEN OR BEING EONSIDERED LIMITED OFFICIAL USE

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BEYOND THOSE INCLUDED KIN ABOVE PROGRAM ARE: A) PRICES OF BASIC MATERIALS PRODUCED BY GOVERNMENT ENTERPRISES MAY BE REDUCED, INCLUDING ELECTROLYTIC COPPER, ALUMINUM INGOTS, ALKALI AND CHLORINE; B) PRICE OF NATURAL GAS TO INDUSTRIAL USERS HAS BEEN REDUCED BY 15 PERCENT; AND C) FURTHER REDUCTION OF INTEREST RATES, BOTH ON DEPOSITS AND LOANS, BY 1/2 OF 1 PERCENTAGE POINT ANNOUNCED DECEMBER 13. (DETAILS FOLLOW).

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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4. A WAS CASE IN CARRYING OUT NOVEMBER 14 PROGRAM, GROC IS CONSULTING CLOSELY WITH PRIVATE SECTOR. MEEING WAS HELD DECEMBER 10, FIRST DAY AFTER DECISION TO FORESTALL DEVALUATION BY SPECIAL EXPORT PROMOTION PROGRAM, BETWEEN THREE CABINET MEMBERS--GOVERNOR YU (YSDKUO-HUA) AND MINISTERS LI (LI KUO-TING) AND SUN (SUN YUN-HSUAN)--AND 60 OR 70 INDUSTRIALIST TO DISCUSS PROBLEMS AND ANNOUNCE GOVERNMENT POLICIES. OTHER SMALLER MEETINGS BEING HELD WITH SPECIAL INDUSTRIAL SECTORS, IN FOLLOW UP OF BOTH DECEMBER 9 AND NOVEMBER 14 PROGRAMS. AT SAME TIME NUMEROUS SPECIAL WORKING GROUPS OF GROC OFFICIALS ARE MEETING DAILY TO IMPLEMENT INDIVIDUAL ITEMS IN LIST OF 10 NEW MEASURES.

5. VARIOUS ESTIMATES WHICH HAVE BEEN MADE OF ACTUAL COST REDUCTION IN PRODUCING EXPORTS AS RESULT OF 10
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POINT PROGRAM RANGE FROM 5 TO 7 PERCENT FOR GARMENTS

TO 3.5 PERCENT FOR PLYWOOD, WITH ELECTRONICS IN MIDDLE AT 4 PERCENT. AT SAME TIME GOVERNMENT WILL BE LOSING REVENUE AS RESULT OF SOME OF MEASURES. THESE ARE ESTIMATED TO BE ABOUT NT\$2,700 MILLION (US\$71 MILLION) IN ONE YEAR.

6. COMMENT: GOVERNMENT ONCE AGAIN IS MOVING RAPIDLY TO IMPEMENT PROGRAM QUICKLY DISIGNED TO REDUCE COSTS OF PRODUCING EXPORTS SO ROC GOODS CAN REMAIN COMPE-TITIVE WITH THOSE FROM KOREA IN SPITE OF LATTER'S DEVALUATION. ALTHOUGH MAJORITY OF ITEMS DO HAVE EFFECT OF REDUCING COSTS, MOST SIGNIFICANT AND MEANINGFUL MEASURES FOR FIRMS IN FINANCIAL TROUBLE ARE ITEMS 1 AND 2, WHICH HAVE EFFECT OF PROVIDING WORKING CAPITAL TO KEEP THEM IN BUSINESS. THE NOVEMBER 14 AND DECEMBER 9 PROGRAMS HOPEFULLY WILL MAKE IT POSSIBLE FOR EXPORT SECTOR TO SQUEEZE THROUGH VERY TIGHT PERIOD. HOWEVER, THERE IS NO QUESTION THAT BY SPRING OF 1975 PRESSURES WILL HAVE BUILT UP CONSIDERABLY, BOTH BECAUSE OF INCREASING VOLUME OF LOANS BY GOVERNMENT TO PRIVATE SECTOR WHICH WILL BE COMING TO MATURING AND BECAUSE UNEMPLOYMENT MAY BEGIN SNOWBALLING. IF NO RELIEF IN SIGHT AT THAT TIME FROM IMPROVED INTERNATIONAL MARKET CONDITIONS, GOVERNMENT WILL FACE HARD DECISIONS AS TO WHETHER TO CARRY ON WITH PRESENT POLICIES OR TO RETRENCH.

LATTER DECISION COULD IMPLY DEVALUATION, IF THAT STEP HASN'T ALREADY BEEN TAKEN BECAUSE OF DOWNTURN IN DAMAGE ROC EXPORTS RESULTING FROM KOREAN DEVALUATION. ACTUAL REDUCTION OF PRICES BY EXPORTERS MADE POSSIBLE BY 10 POINT PROGRAM, NOT PART OF PROGRAM. GOVERNMENT APPARENTLY ASSUMES THIS WILL TAKE PLACE AUTOMATICALLY AS FIRMS COMPETE IN MARKET PLACE.
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